

Nippon Accommodations Fund Inc.
31st Period (March 2021 – August 2021) Investor Presentation
Q&A

Q In putting in place a policy, we have heard that other REITs are also prioritizing occupancy rates even at the expense of adjusting rents. Is there any concern that this will lead to a rent dumping environment? You have mentioned that rents will need to be adjusted to levels recorded around 2017. Do you see rents bottoming out at this level?

A As a countermeasure, NAF was relatively quick to engage in leasing activities at rent levels that would facilitate to conclusion of contracts. We are currently concluding contracts at levels recorded immediately prior to the surge in rents around 2018. While the outlook for rent levels depends on the balance between property supply and tenant demand, we do not believe rents need to be significantly reduced any further given the competitive advantage that properties owned by the Investment Corporation maintain in terms of their quality.

Q While occupancy rates have bottomed out, fluctuations in rents at the time of tenant turnover are becoming increasingly marked. Are there any plan to increase the ratio of corporate tenants in order to manage fluctuations in rent?

A There are few specified examples of corporations leasing in bulk properties owned by NAF. There are cases where tenants select a property on their own and conclude a contract in the name of their employer. Or alternatively, where the contract is in the name of an individual with the rent subsidized by the employer. Taking these factors into account, we do not believe that increasing the percentage of corporate contracts will stabilize rents.

Q The occupancy rate for the portfolio as a whole has stabilized at around 96%. What is your outlook for the future? While not anticipating any further deterioration, do you see little potential for occupancy rates to reach the 97-98% level when supply and demand were tight?

A As you correctly point out, we believe that the occupancy rate will remain in the low 96% range for the time being, which is the level before supply and demand were tight. Currently, occupancy rates for compact and larger categories are firm. While forecasts are based on the assumption that the volume of contracts concluded will be at the current level, we do see an upside should demand in the single category exceed expectations.

Q Can you tell us about NAF's strategy regarding properties to be acquired from the sponsor pipeline, including such factors as location and unit type.

A We do not see any problems for each property as far as location is concerned.

In recent years, our sponsor has been developing properties with a higher percentage of spacious units, which are in high demand, rather than focusing solely on one-room or single rental apartments. We do not believe there are any properties that cannot be acquired from the perspective of category and type. More to the point, our focus at the time of acquisition is on how to best present price while reflecting the difference between the high rents of tenants who moved in before the COVID-19 pandemic and the current market rents.

Q Relocation data of tenants who cancelled their contracts is disclosed in the financial results presentation materials. Do you have data on where tenants came from when moving into a property?

A We do not have this data and therefore are unable to respond.

Q What is the current level of the rent gap, given the continued rise in unit rents?

A Since fluctuations in rents at the time of tenant turnover are probably close to the current rent gap, we believe the current rent gap is around 2%.

Q Demand for telework is increasing. Are you taking steps to include workspace areas as a part of renovations? And, is there any impact on soliciting and marketing activities?

A While certain larger properties have installed workspaces in common areas, space at standard-sized Park Axis properties is limited. Currently, there is little in the way of activity in this area.

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